

Auditor-General of South Africa

eDumbe Municipality

Audit report 2017-18

Report of the auditor-general to the KwaZulu-Natal Provincial Legislature and the council on the eDumbe Municipality

Report on the audit of the financial statements

Opinion

1. I have audited the financial statements of the eDumbe Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2018, the statement of financial performance, statement of changes in net assets, cash flow statement and the statement of comparison of budget information with actual information for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, the financial statements present fairly, in all material respects, the financial position of the municipality as at 30 June 2018, and its financial performance and cash flows for the year then ended in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2017 (Act No. 3 of 2017) (Dora).

Basis for opinion

3. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the financial statements section of this auditor's report.
4. I am independent of the municipality in accordance with the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* (IESBA code) and the ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Emphasis of matters

6. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Material impairments – receivables from exchange and non-exchange transactions

7. As disclosed in note 9 to the financial statements, the municipality provided for the impairment of receivables from exchange transactions of R5,81 million (2016-17: R7,37 million) as the recoverability of these debts were doubtful due to poor collection practices and a history of poor debtor payments.
8. As disclosed in note 10 to the financial statements, the municipality provided for the impairment of receivables from non-exchange transactions of R6,50 million (2016-17: R1,10 million) as the

recoverability of these debts were doubtful due to poor collection practices and a history of poor debtor payments.

Material losses – electricity

9. As disclosed in note 52 to the financial statements, material electricity distribution losses of R7,82 million (2016-17: R4,94 million) were incurred, which represents 37% (2016-17: 49%) of the total electricity purchased. Non-technical losses were as a result of illegal connections and other technical losses were as a result of ageing infrastructure.

Other matter

10. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Unaudited disclosure notes

11. In terms of section 125(2)(e) of the MFMA, the municipality is required to disclose particulars of non-compliance with the MFMA in the financial statements. This disclosure requirement did not form part of the audit of the financial statements and, accordingly, I do not express an opinion on it.

Responsibilities of the accounting officer for the financial statements

12. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the SA Standards of GRAP and the requirements of the MFMA and Dora, and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
13. In preparing the financial statements, the accounting officer is responsible for assessing the municipality's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the intention is to liquidate the municipality or cease operations, or there is no realistic alternative but to do so.

Auditor-general's responsibilities for the audit of the financial statements

14. My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
15. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report.

Report on the audit of the annual performance report

Introduction and scope

16. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report material findings on the reported performance information against predetermined objectives for the selected development priority presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.
17. My procedures address the reported performance information, which must be based on the approved performance planning documents of the municipality. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.
18. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the KPA 2: Basic service delivery development priority presented on page xx of the annual performance report of the municipality for the year ended 30 June 2018.

KPA 2 – Basic service delivery

Various indicators

19. I was unable to obtain sufficient appropriate audit evidence for the targets listed below that clearly defined the predetermined nature and required level of performance. This was due to a lack of proper systems, processes and formal standard operating procedures. I was unable to test whether the targets for these indicators were clearly defined by alternative means.

Indicator no.	Indicator description	Planned target	Reported achievement
KPI 25	To provide free basic services to all municipal-connected indigent households by 30 June 2018	List of households are to be provided with free basic services by 30 June 2018	0 households provided with free basic services by 30 June 2018
KPI 26	To provide free basic services to a number of Eskom-connected indigent households by 30 June 2018	List of households to be provided with free basic services by 30 June 2018	701 households were provided with free basic electricity

Other matters

20. I draw attention to the matters below.

Achievement of planned targets

21. The annual performance report on pages ... to ... includes information on the achievement of planned targets for the year. This information should be considered in the context of the

findings on the usefulness of the reported performance information in paragraph 19 of this report.

Adjustment of material misstatements

22. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of basic service delivery and infrastructure development. As management subsequently corrected only some of the misstatements, I raised material findings on the usefulness of the reported performance information. Those that were not corrected are reported above.

Report on the audit of compliance with legislation

Introduction and scope

23. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the compliance of the municipality with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.

24. The material findings on compliance with specific matters in key legislation are as follows:

Annual financial statements

25. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA. Material misstatements of receivables, payables, revenue, expenditure and disclosures identified by the auditors in the submitted financial statements were subsequently corrected and the supporting records were provided, which resulted in the financial statements receiving an unqualified audit opinion.

Human resource management

26. Financial interests were not disclosed by the municipal manager and senior managers within 60 days from date of appointment, as required by regulation 36(1)(a) on the appointment and conditions of employment of senior managers.

Expenditure management

27. Money owed by the municipality was not always paid within the 30 days as required by section 65(2)(e) of the MFMA.

28. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R7,90 million (2016-17: R45,87 million) as disclosed in note 47 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA.

29. Reasonable steps were not taken to prevent irregular expenditure amounting to R1,70 million (2016-17: R69,82 million) as disclosed in note 49 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the irregular expenditure was as a result of a competitive bidding process not being followed.

30. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R1,20 million (2016-17: R5,96 million) as disclosed in note 48 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the disclosed fruitless and wasteful expenditure was caused by interest charged on late payments on accounts.

Consequence management

31. Unauthorised expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(a) of the MFMA.

32. Irregular expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA.

33. Fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA.

Strategic and performance management

34. Performance targets were not set for each of the key performance indicators for the financial year as required by section 41(1)(b) of the Municipal Systems Act 32 of 2000 (MSA) and municipal planning and performance management regulation 12(1).

Other information

35. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report. The other information does not include the financial statements, the auditor's report and the selected development priority presented in the annual performance report that have been specifically reported in this auditor's report.

36. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.

37. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected development priority presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

38. I did not receive the other information prior to the date of this auditor's report. When I do receive and read the draft annual report, if I conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to retract this auditor's report and re-issue an amended report as appropriate, however, if it is corrected this will not be necessary.

Internal control deficiencies

39. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance on it.
40. The matters reported below are limited to the significant internal control deficiencies that resulted in the findings on the annual performance report and the findings on compliance with legislation included in this report.
41. Leadership did not ensure adequate oversight responsibility over compliance with laws and regulations.
42. The municipality did not have a proper records management system to maintain information that related to the collection, collation, verification, storing and reporting of actual financial and performance information. Furthermore, the municipality's management did not implement controls over daily and monthly processing and reconciling of transactions, including adequate reviews and monitoring compliance with all applicable legislation.

Other reports

43. I draw attention to the following engagements conducted by various parties that could have, an impact on the matters reported in the municipality's financial statements, reported performance information, compliance with applicable legislation and other related matters. These reports did not form part of my opinion on the financial statements or my findings on the reported performance information or compliance with legislation.
44. An incident involving allegations of hacking and fraudulent changing of a service provider's banking details was discovered during the year. The incident was reported to the South African Police Services (SAPS) and the municipality's banking institution. The bank appointed their forensic investigator to investigate the allegations which resulted in the recovery of half of the fraudulently paid funds while SAPS was also investigating the matter. Both investigations by the bank and SAPS were in progress.

Auditor - General
Pietermaritzburg

30 November 2018



AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

Annexure – Auditor-general’s responsibility for the audit

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements, and the procedures performed on reported performance information for selected development priority and on the municipality’s compliance with respect to the selected subject matters.

Financial statements

2. In addition to my responsibility for the audit of the financial statements as described in this auditor’s report, I also:
 - identify and assess the risks of material misstatement of the financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control
 - obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality’s internal control
 - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the accounting officer
 - conclude on the appropriateness of the accounting officer’s use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the eDumbe Municipality’s ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor’s report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial statements. My conclusions are based on the information available to me at the date of this auditor’s report. However, future events or conditions may cause a municipality to cease continuing as a going concern
 - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation

Communication with those charged with governance

3. I communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.
4. I also confirm to the accounting officer that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and, where applicable, related safeguards.